Regional coordination and its background:
Should Kansai be heading for regional coordination like Västra Götaland?

Sawako Maruyama†
Graduate School of Economics, Kobe University

Abstract

This paper aims to analyze the similarities and differences between Kansai region in Japan and Västra Götaland region in Sweden. We investigate the regional economies, the frameworks of regional coordination, and the degree of internationalization.

Main findings of the analysis are summarized as follows. Firstly, the two regions have similar industrial structures and have experienced similar economic stagnation over a long period. Similar problems led to similar solutions requiring local autonomy and regional coordination. Secondly, the two regions both want local discretionary authority over the region. Regional coordination is one way to achieve this. However, the framework of regional coordination is different in both countries. The adopted framework in each region is related to the system of local governance at the county/prefectural level. Unlike Västra Götaland, Kansai is facing problems coordinating tasks between prefectures, and is unable to define the geographical identity of the administrative districts involved. Thirdly, the extent of internationalization in both public and private sectors is different in both regions. Firms and local governments in Kansai are not as internationalized as Västra Götaland which has the support of the EU structural fund.

These facts suggest that while both regions are moving in the same direction towards regional coordination, they are at different levels of achievement. The achievements of regional coordination are affected by the differences in local governance. Simple adaptation of the same system as Västra Götaland would not necessarily result in good governance in Kansai, where prefectures have already a lot of tasks, therefore, Kansai has to find an appropriate, efficient and feasible framework on their own.

Keywords: Regional coordination, Regional development policy

---

† Graduate School of Economics, Kobe University, 2-1 Rokkodai-cho, Nada-ku, Kobe, Japan 657-8501, Tel: +81-78-803-6826, E-mail: maruyama@econ.kobe-u.ac.jp

1. Introduction

There are several similarities between the Kansai region in Japan and the Västra Götaland region of Sweden. From an economic perspective, both regions are the second largest economy in their respective countries, and have experienced a downturn of heavy industries in the past. Politically, both are introducing administrative coordination for local governance. These two facts are closely related, because there is a potential that new political frameworks and policy measures in the region offer the conditions for regional growth and will stimulate the regional economies. The two regions seem to target the same goal, while some region-specific factors may affect the framework and function of coordination differently in each region.

This paper analyzes the regional economy as a background of regional coordination and the framework of that coordination in Kansai and Västra Götaland. The purpose of this paper is to consider the following questions: What do Kansai and Västra Götaland have in common concerning the economic structure and how do they differ? Have they introduced the same type of regional coordination? What can Kansai learn from Västra Götaland, which has proceeded further with regional coordination? Kansai and Västra Götaland are appropriate examples to compare, since Japan and Sweden have similar local self-government systems with three levels and the implementation of regional coordination is occurring at the same level. Prefectures in Japan and counties in Sweden are at the middle level between nation and municipalities. Several prefectures in western Japan form the Kansai region and are trying to establish an administrative coordination. Västra Götaland, which is far ahead of Kansai in terms of regional coordination, has already transferred the functions of counties to the integrated body.

This paper is organized as follows: In section 2, the economy of both regions is analyzed focusing on industrial structure. Challenges of the Kansai economy are also mentioned. Section 3 discusses the framework of regional coordination of the local self-government system. The difference of the internationalization of both regions is considered in section 4. Section 5 summarizes the findings as concluding remarks.

2. Regional Economy

2.1 Kansai region

Generally, the Kansai region consists of the six prefectures of Osaka, Hyogo, Kyoto, Nara, Wakayama and Shiga (Figure 1). 21 million people live in the region, and it accounts for 16% of the Japanese population (Table 1). Kansai is rather known for its three major cities of Osaka, Kobe and Kyoto[1]. The population and businesses are dispersed over these three cities. The population density in Osaka, the largest prefecture, is 4669.7 persons per square kilometer and is not too high as compared to Tokyo with a population density of 6015.7. The six prefectures form one commuting area. They also form one business area; the companies which have their headquarters in urban areas often have plants in Nara, Wakayama and Shiga.

Figure 1. The geography of Kansai

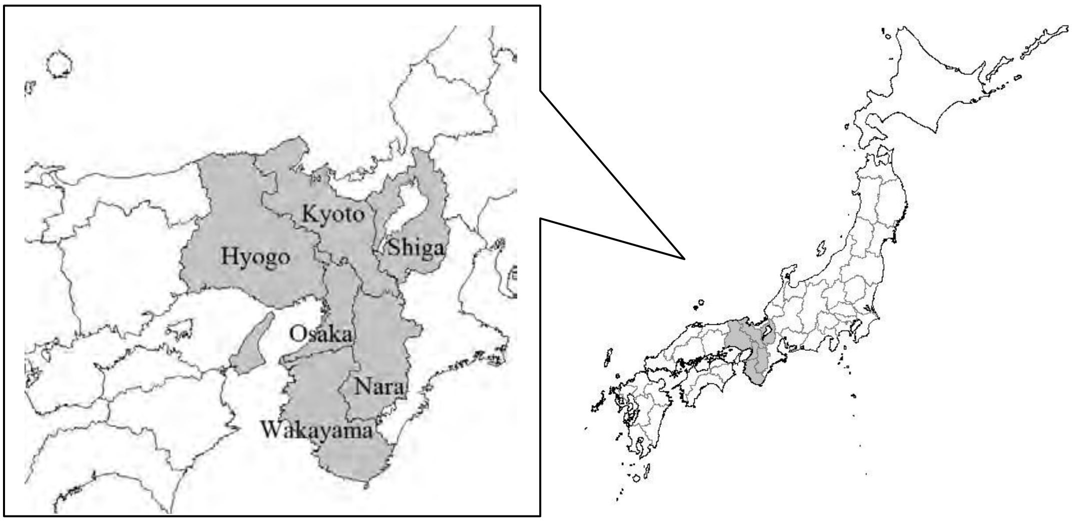


Table 1. Profiles of Kansai

	Population [2010]	Area (km2) [2010]	Population density [2010]
Total	20,903,173	27,343	764.5
Osaka	8,865,245	1,898	4669.7
Hyogo	5,588,133	8,396	665.6
Kyoto	2,636,092	4,613	571.4
Shiga	1,410,777	4,017	351.2
Nara	1,400,728	3,691	379.5
Wakayama	1,002,198	4,726	212.0

(Source) Statistics Bureau of Japan, *Population Census 2010*.

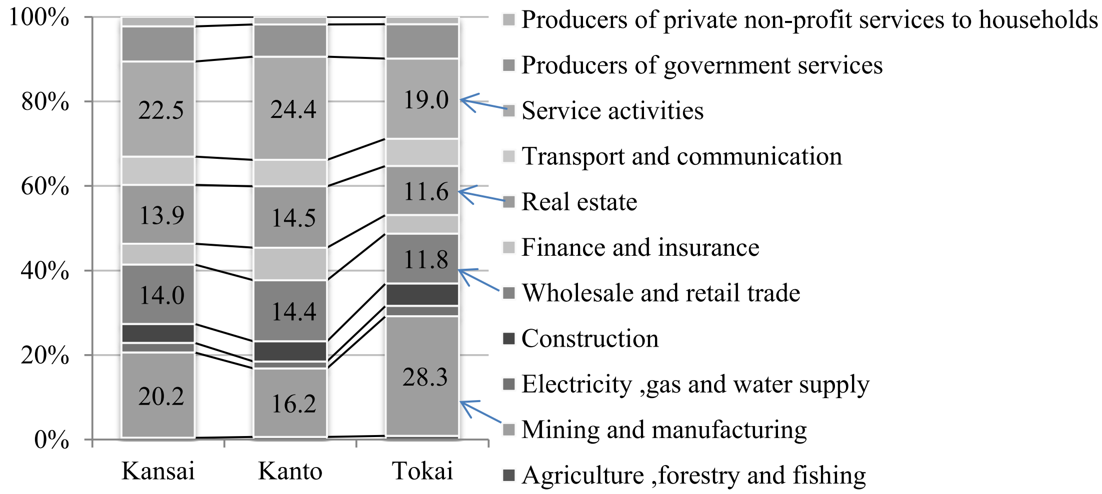
Kansai has long been a center of western Japan politically, economically and culturally. In ancient times, Kyoto, Nara and Osaka at different times have been capital cities. After transferring the capital to Tokyo, Kyoto, where the emperor lived,

[1] Osaka city, Kobe city and Kyoto city respectively are part of Osaka prefecture, Hyogo prefecture and Kyoto prefecture.

maintained a significant role in politics. Osaka developed as 'the city of merchants' and is known as the first place for trading of rice futures. Kobe was one of the first ports opened to foreign countries after the Second World War. Industrial development of Kansai started with textile production at the end of the nineteenth century. Osaka is still both a center of textile production and trading, and Kobe is also known for the apparel industry. In addition to textiles, the electric machinery industry, including home electrical appliances, grew in Osaka after the Second World War. There was also the production of heavy industries such as steel and ships. Along with industrial development, the population increased strongly with the inflow of people from other parts of western Japan. In the long term the peak of the Kansai economy is said to be in 1960s. After that, two oil shocks hit the Kansai economy and it was followed by the appreciation of the yen, which started in 1985. The former shocks decreased the demand for heavy industries, and the latter caused the relocation of production bases to overseas. Those factors brought a long stagnation to the Kansai economy.

Figure 2 shows the composition of GRP by sector in the Kansai, Kanto and Tokai region. The service sector is the largest and accounts for 23.0%. The second largest sector is manufacturing, accounting for 20.6%. These features of Kansai show that it is well-balanced in structure in comparison with Kanto and Tokai regions. Furthermore, the manufacturing sector does not rely on a specific industry; three types of manufacturing – light industry, heavy industry and assembly industry – are contained evenly.

Figure 2. The composition of GRP by industry in Japan, 2008



(Source) Economic and Social Research Institute, *Annual Report on Prefectural Accounts*.

Table 2 shows the Kansai and Swedish companies listed on *the Fortune Global 500* in 2011. Ten companies are from Kansai, including Panasonic and Sharp. Electrical machinery is one of the current leading industries in Kansai. There are agglomerations of several industries. One of them is the electrical machinery industry including both large companies and small- and medium-sized enterprises (SMEs), although it is not to the extent of the automobile industry in the Tokai region. In recent years, the active investments in new products such as liquid crystal displays, solar panels and solar-cells have stimulated the economy in Kansai. However, these products are facing competition from other Asian companies, especially Korean, Taiwanese and Chinese companies. The standardized products, such as home appliances are often produced in other Asian countries. Therefore, Kansai companies producing electrical machinery are caught by and facing hard competition with Asian companies, which have the advantage of lower labor costs.

There is another agglomeration of companies in Kansai – the wholesaler. Some large wholesale companies started their operations and some of them still locate their headquarters in Kansai. In addition, there are a lot of small and medium sized wholesalers which deal with specific goods such as textile, steel and machinery. The pharmaceutical industry is a field that has both a lot of producers and wholesalers in Osaka. The recent development of bio-medical technology encourages the connection among those companies, universities and local governments. As a result, the cooperation among actors from these three sectors has developed new industrial clusters in Kansai.

Table 2. Global companies in Kansai and Sweden

global 500 rank	company	city	revenues ($ millions)
50	Panasonic	Osaka	101,491
81	Nippon Life Insurance	Osaka	78,571
200	Sumitomo Life Insurance	Osaka	42,832
201	Itochu	Osaka	42,612
237	Volvo	Göteborg	36,749
253	Sharp	Osaka	35,283
295	Kansai Electric Power	Osaka	32,339
322	Vattenfall	Stockholm	29,645
339	L.M. Ericsson	Stockholm	28,226
407	Maruhan	Kyoto	23,806
409	Sumitomo Electric Industries	Osaka	23,746
447	Kobe Steel	Kobe	21,700
495	Daiwa House Industry	Osaka	19,733

(Source) Fortune, *Global 500 2011*.

The Kansai region has suffered from a long-term stagnation. It is likened to 'land subsidence', which actually happened in the 1960s because of the withdrawal of too much underground water. The share of Kansai in the Japanese GDP declined from 19.3% in 1970 to 15.6% in 2008. There are several reasons for this slowdown of the Kansai economy, and one of them is the relocation of a lot of plants outside of Kansai in order to avoid the relatively high labour cost and land prices. Three acts concerning the restriction of the location of plants in urban areas encouraged the outflow of plants. These acts aimed at saving and improving the environment damaged by industrialization, and were applied only to Kanto and Kansai. The Kanto region succeeded in shifting towards a service economy, while the service industry in Kansai could not grow enough to lead the regional economy. In the 1970s, the two oil shocks hit the steel and shipbuilding industry, which were leading sectors of the Kansai region at that time.

Another reason for the long stagnation is the concentration of businesses in Tokyo – some large enterprises moved their headquarter functions from Kansai to Tokyo. A lot of large companies based in Kansai have had dual headquarters in both Kansai and Tokyo. Some of them consolidate the function of headquarters in Tokyo for the sake of efficiency. Because the function of headquarters is to make decisions for new products, services, operations and technology, and to decide the route of procurement and partners for outsourcing, moving the headquarters to Tokyo caused the local companies, especially SMEs, to lose business opportunities. At the same time, the absence of headquarters makes the decision making in Kansai slower. The concentration in Tokyo brings another problem to Kansai concerning the location of foreign owned companies. Since the 1990s, local governments have tried to promote the location of foreign-owned companies to stimulate the regional economy. However, most of the foreign-owned companies choose to locate their headquarters in Tokyo. Even though Kansai is the second largest region in Japan, it is not easy to attract foreign-owned companies.

These facts have brought the eagerness for economic revival to both businesses and local governments in Kansai. For the prefectural governments whose revenues highly depend on the corporate taxes, the stagnation of the regional economy is immediately connected to the smaller capacity of administrative services[2]. They have tried to implement some measures for stimulating the regional economy – for example,

[2] To avoid the contraction of the services, most of local governments issue local bonds. The redemption of the local bonds is another problem for them, although we do not discuss it on this paper.

providing subsidies for investment, financial support to SMEs, and so on. However, it is difficult for prefectures to maintain all of these measures because of decreasing revenue.

Moreover, this is an issue on which a region as a whole rather than prefectures must work out for the following three reasons. Firstly, a lot of Kansai companies have their headquarters in Osaka, but put their plants in other prefectures in Kansai, such as Nara and Shiga[3]. The business climate is intertwined with Kansai. Secondly, the location of business partners is also Kansai-wide. Thirdly, the commuting area is broader than one prefecture. Table 3 shows that 740 thousand people commuted to Osaka prefecture from other Kansai prefectures and Mie[4] in 2005.

Table 3. The number of persons who commute to Osaka by the prefecture of residence

Shiga	Kyoto	Hyogo	Nara	Wakayama	Mie	Others	Total
24,326	106,188	364,379	184,532	34,068	10,438	16,079	740,010

(Source) Statistics Bureau of Japan, *Population Census 2005*.

2.2 Västra Götaland region

Västra Götaland is the second largest region in Sweden following Stockholm. The population of Västra Götaland accounts for 17% of Sweden, however, it is less than one-tenth of Kansai (Table 4). The center of Västra Götaland region is Göteborg. More than half of the population in Västra Götaland live in Göteborgsregionen including Göteborg and 12 municipalities, while the population density in Göteborg is less than that of Stockholm. Västra Götaland consists of areas with small population as well as other major cities – Borås in Sjuhärad, Trollhättan in Fyrbodal, and Skövde in Skaraborg (Figure 3). This means the labor market is dispersed (Ernstson et al, 2008).

Göteborg has developed as an international port city thanks to a good access to Britain and other parts of Europe. In the eighteenth century, Göteborg started to grow as a commercial and industrial center in connection with iron production. Manufacturing such as textiles, shipyards and the automobile industry also led the development of the region. Since then, Borås has long been a city connected to the textile industry. In Trollhättan and Skövde, there are automobile plants.

In the 1970s, similar to Kansai, oil shocks decreased the demand for steel and

[3] Kansai companies often locate their plants in six Kansai prefectures and neighboring two prefectures of Okayama and Mie (Osaka Prefectural Institute for Advanced Industry Development, 2008). This indicates that actual industrial area of Kansai spreads out in eight prefectures.
[4] Western part of Mie prefecture is dormitory suburb of Kansai.

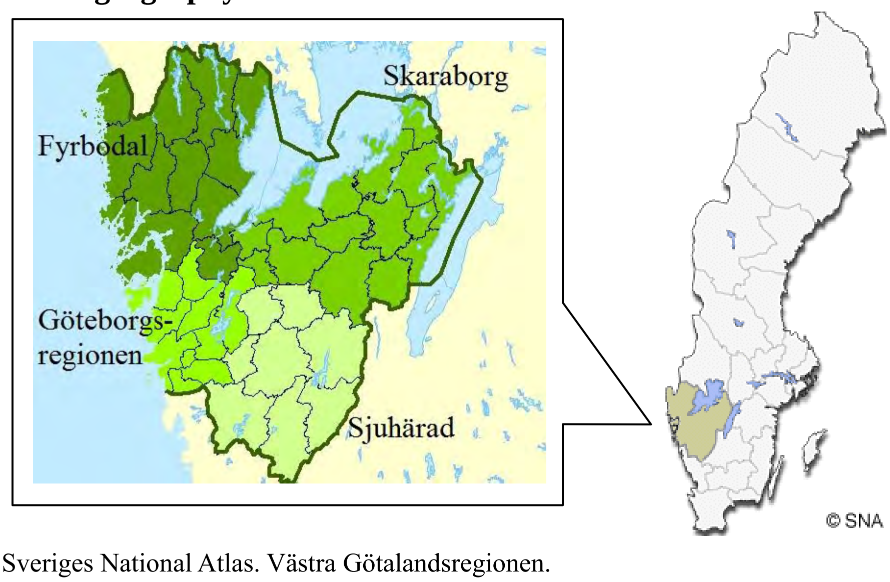
ships which were main export products of Västra Götaland steeply. In spite of the subsidies from the central government, the shipyard industry in Göteborg could not recover (Schön, 2007). Such prolonging measures for declining industries delayed the shift of industrial structure and caused a long stagnation until the 1980s. In comparison to Stockholm, where service and public sectors have created jobs, Västra Götaland didn't have such a creation of new employment. Furthermore, in the middle of the 1990s the Öresund Bridge connected the Skåne region to Copenhagen, the capital of Denmark. It was expected to enlarge the economic area across the border, and it meant more business opportunities for companies in Skåne. The absence of a favorable industry like services in Stockholm or an effective revitalization project as in Skåne caused a sense of crisis in Västra Götaland. These disadvantages of Västra Götaland brought about the discussion of regional coordination.

Table 4. Profiles of Västra Götaland

	Population [2011]	Area (km2) [2011]	Population density (per km2) [2011]
Total	1,665,316	24,560	67.8
Göteborgsregionen	937,722	3,718	252.2
Fyrbodal	259,802	7,684	33.8
Sjuhärad	211,263	5,764	36.7
Skaraborg	256,529	7,393	34.7

(Note) Göteborgsresionen includes Kungsbacka.
(Source) Statistics Sweden, *Statistikdatabasen.*

Figure 3. The geography of Västra Götaland

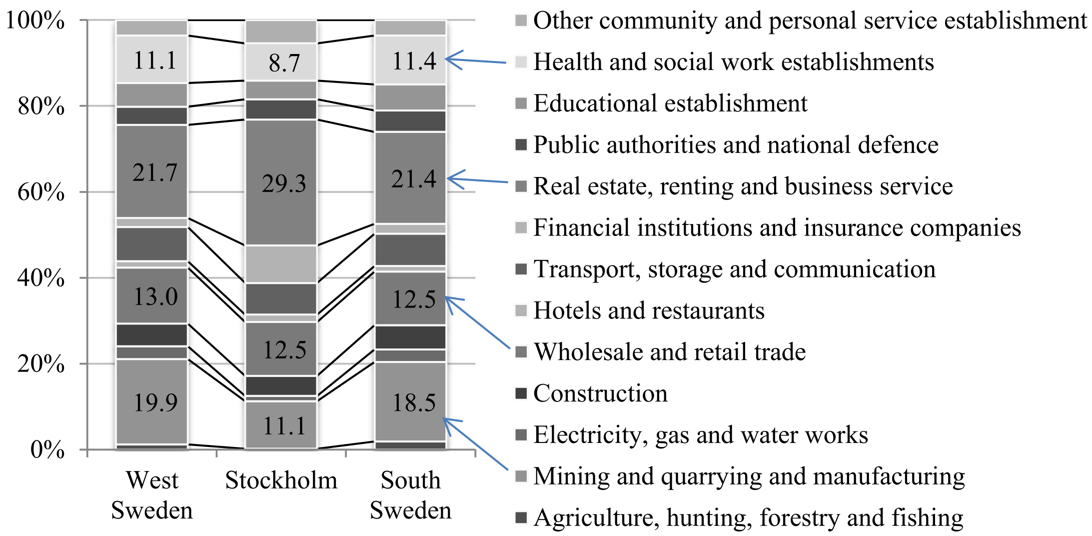


(Source) Sveriges National Atlas. Västra Götalandsregionen.

After a long stagnation, Västra Götaland started to explore a way towards regional integration in the 1990s. In recent years, the Swedish economy shows a sharp increase of around 5% of the GDP growth rate. It is said to be a result of the reform of some systems and policies after the bursting of the bubble economy in 1990.

The industrial structure of Västra Götaland has one feature in common with Kansai: it is well-balanced in comparison with Stockholm and South Sweden. The GRP composition of Västra Götaland is not biased as in Stockholm, where the service sector accounts for 29.3% (Figure 4). Conversely, the manufacturing sector of Västra Götaland depends heavily on the automobile industry. This fact suggests that the economy of Västra Götaland is sensitive to a business cycle similar to the Tokai region where Toyota and Suzuki locate their headquarters and there is industrial agglomeration.

Figure 4. The composition of GRP by industry in Sweden, 2008



(Source) Statistics Sweden, *Regional accounts 2008*.

In Västra Götaland, there are the headquarters of the Volvo group and Volvo cars. They have plants in Göteborg, Uddevalla and Skövde, making a large part of their global production. SAAB also has their headquarters in Trollhättan. Therefore, Västra Götaland forms a large production base for automobiles. The financial crisis since 2008 brought significant changes for these two companies. The decline of demand forced them to restructure their management. Unemployment in the region increased up to 33,000. The Chinese automobile company Geely became the largest shareholder of Volvo in 2010. On the other hand, SAAB, which was owned by SPY cars in Netherland, failed to find a new ownership, although a Chinese company expressed interest.

Several bio-technological companies including Astra Zeneca locate their R&D department in Göteborg. There is an agglomeration of researchers and increase in the establishment of new companies in the field of bio technology. A model called 'Triple-helix' is observed in Sweden. It develops collaboration among companies, universities and local governments as what happened in Kansai. In both the cases of Kansai and Västra Götaland, local governments implement measures to support science parks and incubators.

2.3 The comparison of two economies

First, we focus on the economic features of Kansai and Västra Götaland. Table 5 shows the economic sizes of both regions. The Gross Regional Product of Kansai was 770 billion US dollars in 2008 and it was almost ten times that of Västra Götaland. The number of business establishments is also quite different between the two regions. It is necessary to recognize that we are investigating quite different economies in size. The features of the two economies are unclear from the simple comparison of economic size.

Table 5. Economic size of Kansai and Västra Götaland

	Gross Regional Product in million US dollar [2008]	Number of Business establishment [2009]
Kansai	770,901	1,055,346
Västra Götaland	79,383	155,457

(Note) GRP in US dollar is calculated using 1US$=103.39 Yen and 1US$=6.60 SKR.
(Source) Statistics Bureau of Japan, *Economic Census 2009.* Economic and Social Research Institute, *Annual Report on Prefectural Accounts*. Statistiska Central Byrån, *Bruttoregionprodukt* and *Regionala basfakta enligt företagens ekonomi*.

Concerning industrial structure, similarities between Kansai and Västra Götaland are summarized as follows. Firstly, the composition of GRP, comparing other metropolitan areas in Japan and Sweden, shows that the two economies of Kansai and Västra Götaland are well-balanced with bases in manufacturing, commerce and services. Secondly, both economies experienced long-term declines due to contracting demand for heavy industry. Thirdly, both are seen new agglomeration in industries such as pharmaceuticals.

These similarities might occur coincidentally. For example, there are international ports in Kobe/Osaka and Göteborg and this led to the development of shipyards. However, they indicate that both economies are facing the same problems. Both need to develop new industries, attract companies and create job opportunities. It is not easy even though their economies are the second largest in each nation – but rather because they are not the largest, and they are not capital cities. Capital cities like Tokyo and Stockholm succeeded in shifting toward service economies from 1980s. Moreover, capital cities are internationally well-known and therefore need less effort to attract investment. Kansai and Västra Götaland, being the second largest economies, don't have such advantages.

3. Regional Coordination

3.1 Regional integration of Västra Götaland

In 1998, the Västra Götaland Region was established with the integration of Skaraborg, Älvsborg and Bohus county councils and parts of the City of Göteborg. These county councils (*landsting* in Swedish) are mainly responsible for medical care, dental care and public transport. Each county had a directly elected assembly for decision-making of their policy measures. These were integrated into one regional assembly as the establishment of the region and the process of decision-making transferred to it.

The establishment of the region aimed, first of all, to integrate the system of medical care to improve its efficiency. As we have seen in the previous section, counties in Sweden are small – they were too small to maintain sufficient medical care. Another aim was to transfer the discretionary taxation from the central government to the region so that it could shoulder more responsibility. The policies of the central government were implemented by the county administrative boards (*län* in Swedish) which shared almost the same geographical area with county councils. The transfer was expected to strengthen the regional economy, because it enabled the region to implement measures which were decided by the region. After the integration, a region can deal with other areas such as culture, education, tourism and regional development[5]. The transport system is another issue that is more efficient to work on at a regional level than at a

---

[5] Regional development policy includes infrastructure development and industrial support for regional firms. As OECD (2010) explains, "the principal objectives of regional policy were greater equity and balanced development during a period of rapid industrialization…The main instruments used were wealth redistribution through financial transfers by the national government accompanied by large-scale public investments, especially in lagging regions." In addition to these traditional regional development policies, policies focusing on growth and competitiveness are becoming more important. It means that the targets of policies have expanded from infrastructure to "entrepreneurship and innovation, education and training, culture and the environment" (OECD, 2010, p.16).

county level. As mentioned in section 2, the labor market of Västra Götaland is dispersed. Each of the major cities is more than 60 km away from the others, which is further than the cities in Stockholm and the Skåne region (Ernstson et al, 2008). The improvement of transportation is expected to connect those isolated small labor markets.

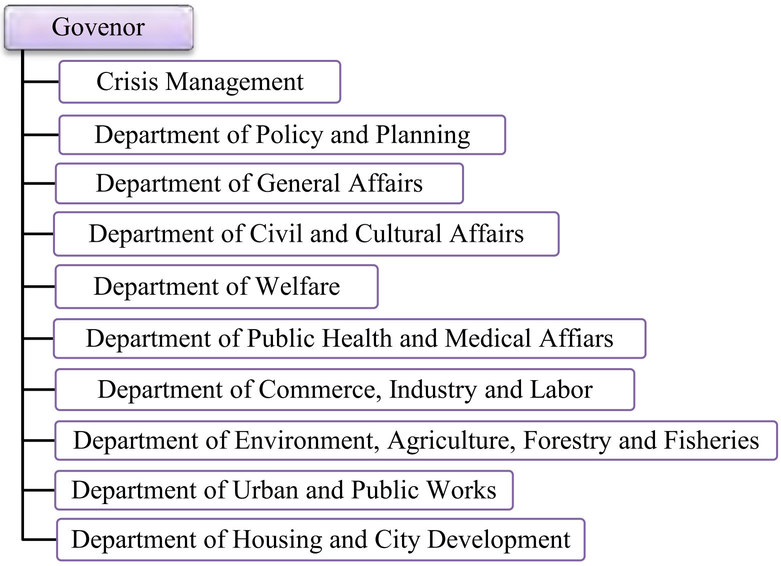
The discussion of regional integration in Västra Götaland started in the beginning of the 1990s. One of the motivations was the long-term economic disadvantage mentioned in the end of the previous section. In addition, the border of each county was a problem for policies by counties. The administrative borders were almost unchanged from the first geographical borders set in 1634 (Jensen, 2004, OECD, 2010). Before the integration, the administrative areas were different from economic areas measured by commuting distance. Such a mismatch of borders makes it difficult to carry out policies efficiently. After a long and careful discussion, regional integration as Västra Götalandsregionen started in 1998 as an experiment along with the Skåne region. The experiment for more than a decade was a success. Västra Götaland chose to continue as a full-fledged organization in 2011.

3.2 Regional Coordination bodies in Kansai

The Japanese local governance system consists of three levels, which is the same as in Sweden. At the middle level, there are 47 'prefectures' corresponding to the *landsting* in Sweden. These prefectures' obligation is to implement measures which cover a broad area across municipalities. These include maintenance of rivers and roads, water supply, secondary education, and medical care. Furthermore, most prefectures voluntarily conduct additional measures. For example, the Osaka prefectural government has 10 departments and undertakes medical care, urban development and housing, human rights and gender equality, welfare for children, elderly and handicapped care, education (including preschool, primary, secondary, higher, and vocational), industry and labor, agriculture and fishery, in-bound tourism, and crisis management – a broader area than Swedish *landstings* (Figure 5). The regional coordination has also been discussed for a long time in Kansai. There are three frameworks for the coordination discussed in parallel – regional cooperation, regional associations, and the province system.

Regional cooperation is the first framework employed practically in Kansai. It aims to smooth the cooperation between the existing policies of each prefecture. Within this framework, the members keep their own tasks and their regional cooperation has no function of decision-making. Therefore, this framework is the 'loosest' coordination among three. In Kansai, this framework is called *Kansai Koiki Renkei*. Ten prefectures and four municipalities joined this regional cooperation: Fukui, Mie, Shiga, Kyoto, Osaka, Hyogo, Nara, Wakayama, and Tokushima prefecture, plus the four ordinate-designed cities of Kyoto, Osaka, Sakai and Kobe city (Figure 6). There are some members from outside of Kansai – Fukui from the Hokuriku region, Mie from Tokai region, and Tokushima from Shikoku region. These prefectures are in the neighborhood and have a close relationship with Kansai.

Figure 5. The organization of Osaka Prefecture



(Source) The website of Osaka Prefecture (as of October 24, 2012)

The regional cooperation started its operation in June 2007 and dealt with following fields: culture and tourism, environment, crisis management, disaster prevention, publicity and regional development. However, this framework was too weak to coordinate the measures among prefectures. The function of the cooperation was only to adjust measures among prefectures, but the measures of prefectures were already established through the decision-making process of each prefecture. The regional cooperation could not force them to change measures or practices. As a result, only tourism and publicity were successful within this framework. In October 2011, the institution of regional cooperation dissolved in accordance with the start of the second coordination mentioned below.

The second coordination is the regional association called 'the Union of Kansai Governments' (hereafter the UKG), or in Japanese, *Kansai Koiki Rengo*. The purpose of this framework is to integrate a part of the tasks of member prefectures. The seven prefectures of Shiga, Kyoto, Osaka, Hyogo, Wakayama, Tottori and Tokushima are members (Figure 6). The two prefectures of Tottori and Tokushima are from outside of Kansai, while Nara is not a member of this framework. The operation of the UKG started in December 2010, and the first assembly was held January 2011. UKG became known for the quick response to the Great East Japan Earthquake. They decided which responsible member prefectures would offer assistance for each of the affected prefectures in the Tohoku region.

Figure 6. The member prefectures of regional coordination

Kansai Regional Cooperation

The Union of Kansai Governments

The big difference from the previous regional cooperation is that they have an indirectly-elected assembly which consists of the representatives from prefectural assemblies. The UKG can make its own decisions regarding measures covering a broader area. The UKG works in the field of disaster prevention, culture and tourism, industrial promotion, medical care, environment, licenses, and training for governmental staff. These are originally the tasks for prefectures, and coordination of these measures among prefectures is expected to improve their efficiency. However, not all the functions are in practice yet; Tasks for prefectures have not been fully transferred at the present stage of formulating a strategy. Only a few measures, such as the operation of the helicopter emergency medical service, have been implemented. In addition, prefectures keep having their own measures for governance, and the assembly of the UKG is not strong enough to control these prefectures' measures.

The third framework of coordination, the province system (*Doshu-sei* in Japanese), has not been realized yet. The province system has become well-known in recent years[6]. The province system involves the transfer of all tasks and decision-making processes of prefectures to the provincial government and the integrated directly-elected assembly. The process of decision-making is the same as that of the Västra Götaland region. The governor of the province is expected to have a strong enough authority to control the allocation of governmental services. This framework ideally can be the most powerful tool to improve the efficiency of the local government. However, its feasibility is not high because, for most prefectures, it would mean the loss of self-government, or 'being acquired by Osaka'.

Table 6. Three frameworks in Kansai region

	Name of the framework	Operation	Integration of tasks among prefectures	Regional assembly	Member
loose integration	Regional cooperation (Kansai Koiki Renkei)	Jun. 2007- Oct. 2011	-	No decision-making	10 pref. 4 mun.
	Regional coordination (Kansai Koiki Rengo, the Union of Kansai Governments)	Dec.2010-	7 fields	Indirectly-elected	7 pref. 4 mun.
deep integration	The Province System	-	All fields	Directly-elected	-

(Note) At the raw of Member, 'pref.'is prefecture, 'mun.' is municipality.

3.3 The comparison of two regions

As mentioned in section 2, both of the regions have experienced economic stagnation. The contraction of the regional economy was partly related to the common characteristics of the two regions – metropolitan regions not being the capital. This fact became a strong driving force of the regional coordination. The regional coordination aims to stimulate the regional economy implementing two initiatives. One is to integrate the process of decision-making among counties/prefectures. The other is to transfer the discretionary taxation and authorities from the nation to the region.

Kansai and Västra Götaland have made a strong request for transferring the discretionary taxation and authorities in common. The reason why these regions demand the transfer them is that each region has different problems connected to industrial and economic structures. For example, the problems of Kansai are different from those of the Tokai region. Each region needs to have appropriate measures for solving those problems. Meanwhile, regional development policy has been a task of the central

[6] Toru Hashimoto, ex-governor of Osaka Prefecture, insisted strongly the introduction of the 'Kansai-province' applying the province system. On the contrary, governors of other prefectures are suspicious of the province system looking out for the loss of self-government.

government – or at least the central government has a strong authority over it – in both Sweden and Japan. Actual implementation in the region is done by the county administrative boards of ministries. A problem in this process is that there is no direct reflection of opinions from regional residents and businesses. Therefore, the two regions strongly request to transfer the authority of regional development and tax revenue sources – so that the region can decide its own policies. Moreover, the transfer of tasks and tax sources from the nation to the region are required for the improvement of efficiency. The integration of prefectural assemblies, prefectural government bodies and the county administrative boards lead to cost-cutting and the improvement of regional finances because of the reduction of governmental staff and the members of the prefectural assemblies.

Västra Götaland got off to a good start in introducing a new framework for regional coordination and its own regional development policies regarding both of these initiatives. On the other hand, Kansai, where three different frameworks have been brought up in discussion, seems to have difficult challenges. The comparison between the two regions revealed some differences as follows.

Firstly, the tasks at the county level before the coordination were limited for Västra Götaland in comparison to Kansai. The structure of local self-government in Sweden has been likened to a 'sandglass' – with *landsting* at the bottleneck. This enabled Västra Götaland to create a new system without an adjustment among existing measures of county councils. In contrast, prefectures in Kansai already have measures which cover broader fields. Regional coordination in Kansai has the high aim of trimming down overlapping administration and measures. Coordination for the sake of efficiency often involves the reduction of public services, however, the reduction of existing measures is harder to agree on than the creation of new measures. For example, most of the municipalities in Kansai are unwilling to cooperate with each other concerning the measures for attracting business establishments[7]. The reason behind this is their relationship as competitors –only the municipality which succeeds in attracting investment can enjoy the increase of tax revenue. The effect on other municipalities, such as an increase of employment, is limited. There is similar discussion in Västra Götaland. Swedish municipalities have been actors for regional development policies before the actual establishment of the region. At that time, it was argued that the region should not force the change of the industrial measures of the municipalities. Also, the region should not infringe upon the authority of the municipalities. They started with

[7] Kansai Institute for Social and Economic Research (2010), p.119. Although this is a case for municipalities, the same is true of the discussion for prefectures.

policies on development of infrastructure or education and research, which did not overlap (Pierre and Schütt, 2004).

Secondly, in Västra Götaland the geographical identity of the administrative district named *län* (nation) and *landsting* (county/region) helped facilitate the smooth transfer of tax revenue source from the nation to the region. On the other hand, the issue of administrative borders can be an impediment to the regional coordination in Kansai.

County administrative boards in Japan cover areas which consist of several prefectures. The geographic coverage differs according to the county administrative boards. For example, the jurisdiction of the Kinki regional agricultural administration office and the Kinki district transport bureau includes the six prefectures of Shiga, Kyoto, Osaka, Hyogo, Nara and Wakayama (Figure 7). Meanwhile, the Kansai bureau of economy, trade and industry (METI Kansai) and Kinki regional development bureau have jurisdiction over the aforementioned six prefectures plus Fukui. In addition to this, the composition of member prefectures varies for each framework of regional coordination (Table 7). The member prefectures of the ongoing coordination UKG are seven: Shiga, Kyoto, Osaka, Hyogo, Wakayama, Tokushima and Tottori. In this union, Nara, which is one of the core prefectures of Kansai, has not joined, and two prefectures participate from outside of Kansai. The UKG aims at transferring the authorities from four county administrative boards in the area of industry, agriculture, and infrastructure. However, to realize the transfer of tax revenue source and authorities, it is essential to solve this problem of geographical mismatch.

Figure 7. The coverage of the county administrative boards

Kansai Bureau of Economy, Trade and Industry / Kinki Regionla Development Bureau	Kinki Regional Agricultural Administration Office / Kinki District Transport Bureau
	

Table 7. The coverage of the county administrative boards

		Shiga	Kyoto	Osaka	Hyogo	Nara	Wakayama	Fukui	Mie	Tokushima	Tottori
Regional Coordination	Kansai Regional Cooperation	✓	✓	✓	✓	✓	✓	✓	✓	✓	
	The Union of Kansai Governments	✓	✓	✓	✓		✓			✓	✓
	The Province System										
County Administrative Boards	Kansai Bureau of Economy, Trade and Industry	✓	✓	✓	✓	✓	✓	✓			
	Kinki Regional Agricultural Administration Office	✓	✓	✓	✓	✓	✓				
	Kinki Regional Development Bureau	✓	✓	✓	✓	✓	✓	✓			
	Kinki District Transport Bureau	✓	✓	✓	✓	✓	✓				

Thirdly, there is a large gap of the population and economic size between the two regions. This brings about the different motivations for regional coordination. The problem of Västra Götaland before the regional integration was inefficiency caused by dispersed small counties. The integration of the counties allowed the region to enjoy an economy of scale with 1.56 million inhabitants. Furthermore, the region became large enough to be subsidized from the regional development program of the European Union[8]. In contrast, all of the prefectures in Kansai are bigger than Västra Götaland. For such a region with a huge population, there is a question whether the integration always accompanies an increase in efficiency. For example, OECD (2006) points out the possibility of diseconomy of scale from the negative relationship between population and income for OECD mega-cities.

There is another challenge for Kansai concerning membership. In Kansai, there are the four ordinance-designated cities of Osaka, Sakai, Kyoto and Kobe city. The ordinance-designated cities which have a population of more than 700,000 inhabitants are allowed to implement some of the tasks of the prefecture. These cities can establish their own measures in the fields of urban planning, health centers, and so on. In many cases, the ordinance-designated cities voluntary set up other measures including regional development. Regarding the fields which an ordinance-designated city deals with, a prefectural government has no force to decide the measures applied within the city[9]. Therefore, the participation of the ordinance-designated cities in the coordination

[8] For further details of The Regional Operational Programme for West Sweden, see website of European Commission. http://ec.europa.eu/regional_policy/index_en.cfm

[9] It is often criticized as 'the overlapping administration' that a prefecture and an inside municipality have similar measures.

is essential to improve the efficiency of the region. This has been realized with the participation of Osaka and Sakai city in April 2012, followed by Kyoto and Kobe city in August 2012. In Västra Götaland, Göteborg was a similar case called *landstingsfri kommun* which was responsible for medical care. It was not a major obstacle, because the tasks of the county council were limited.

4. Internationalization and the region

In the previous two sections, we discussed mainly the domestic factors behind regional coordination. In addition to them, we need to discuss what happened to the regions during globalization of 1990s-2000s. This changed the economic circumstances for firms and public sector in the regions. How have the regional economies in Kansai and Västra Götaland adapted to them? In this section, the corresponding changes of both firms and administrative organizations are discussed.

4.1 The internationalization of firms

To begin with, we consider the internationalization of firms, which means to broaden their activities abroad. It includes trade, foreign direct investment (FDI), outsourcing, technology alliances, and so on. After the Second World War, the amount of trade in the world rapidly increased. From the 1980s, FDI accelerated further expanding trade volume. This affected regional economies and local firms in two directions: outward activities such as exports, outward FDI, foreign outsourcing, and inward activity such as imports, inward FDI. We investigate these two issues separately.

First, we outline the outward movement of Japanese firms. The Yen apprehension after the Plaza Accord in 1985 was a trigger for outward FDI of Japanese firms. It led to the decrease of export demand, and a lot of large firms chose to transfer their production base overseas. Most SMEs, which dominated in number, did not take the risk of foreign production since it required large amounts of capital. SMEs suffered from the increase of import from Asia, and the decrease of orders from parent and large companies due to FDI. The damages caused the number of SMEs to decline, and the surviving SMEs had to change their trade behavior. Some chose to shift their business to domestic demand focusing on niches needing high-skilled labor. At that time, the economic boom known as ‘bubble economy’ started to grow. The domestic market in Japan was able to absorb the production of SMEs. However, the bubble economy collapsed in the beginning of the 1990s, and the domestic market began to contract. Overseas markets became more important for SMEs. Recently, a growing number of

SMEs engage in overseas business. However, it is not large yet: *The 2012 White Paper on Small and Medium Enterprises in Japan* points that only 2% of manufacturing SMEs export their products directly overseas, and only 1% for outward FDI[10]. The reason why most SMEs engage only in domestic business is because of the existence of the large domestic market. They can acquire enough business partners, with fewer risks, in comparison to FDI.

The behavior of Swedish SMEs is totally opposite. Since the domestic market in Sweden is limited, they are motivated to cultivate foreign demand. 13% of Swedish SMEs export to foreign markets (Tillväxtverket, 2012). Internationalized SMEs account for 24.6% nationwide, and 27.1% in Västra Götaland. Regarding Osaka firms, the result of a questionnaire survey by Osaka prefecture in 2006 revealed that internationalized firms account for 16.1% of the sample firms, which includes both large firms and SMEs (Osaka Prefecture, 2006).

Table 8. Japanese and Swedish firms listed in the world's top 100 non-financial TNCs by UNCTAD, 2010 (Millions of dollars and number of employees)

	Ranking by:		Corporation	Assets		Sales		Employment		TNI (%)
	Foreign assets	TNI		Foreign	Total	Foreign	Total	Foreign	Total	
Japan	5	76	Toyota Motor Corporation	211,153	359,862	140,319	221,604	118,362	317,716	53.1
	21	37	Honda Motor Co Ltd	104,286	139,644	82,871	104,269	106,230	176,815	71.4
	29	97	Mitsubishi Corporation	79,153	136,947	11,264	60,750	17,615	58,723	35.4
	31	56	Sony Corporation	72,752	155,986	58,671	83,786	107,700	167,900	60.3
	36	62	Nissan Motor Co Ltd	63,499	129,576	77,673	102,358	76,321	151,698	58.4
	42	95	Mitsui & Co Ltd	60,347	103,772	23,549	54,596	3,111	40,026	36.4
	87	93	Hitachi Ltd	32,680	110,857	47,212	108,690	145,352	361,745	37.7
	92	72	Japan Tobacco Inc	31,475	43,108	30,943	72,273	23,902	48,472	55.0
Sweden	47	33	Vattenfall AB	54,013	80,694	22,606	29,632	30,994	40,363	73.3
	80	22	Volvo AB	36,395	47,395	35,003	36,732	66,903	90,409	82.0
	98	35	TeliaSonera AB	30,881	37,342	9,694	14,788	20,008	28,945	72.5

(Source) UNCTAD *World Investment Report 2011*.

The same thing can be said about large firms in Japan, they too depend on domestic demand. Table 8 shows Japanese and Swedish firms listed in the world's top 100 transnational corporations in the non-financial sector. The ranking is based on the amount of foreign assets. In addition, the Transnationality Index (TNI) is calculated as the average of foreign assets ratio to total assets, foreign sales ratio to total sales, and

[10] Small and Medium Enterprise Agency (2012), p.71 and p.75.

foreign employment ratio to total employment. TNI approaches 100 when the foreign share of a transnational corporation's production and distribution is mainly based overseas and means that the transnational corporation is highly transnationalized. The comparison of TNI shows that major Japanese firms tend to be less transnationalized than Swedish firms. A lot of Japanese firms have expanded their activities overseas, however, the internationalization of their operation is at a lower level in comparison to Swedish firms.

Next, we start with the inward FDI of Sweden with regard to an inward movement. After the burst of their bubble economy in 1992, the Swedish government changed their attitude regarding inward FDI policy. They recognized that inward FDI could stimulate the domestic economy and so developed policies to attract foreign capital such as a reduction of corporate tax, special tax incentives and deregulation[11]. In the 1990s there were some large-scale cross-border M&As, for example, Ford's acquisition of Volvo cars, and a merger between Astra and Zeneca in the pharmaceutical industry. The number of foreign-owned firms in 1990 was 2,563 and it increased to 13,636 in 2009[12]. It accounts for 1.5% of total number of firms. The Göteborg region consists of 13 municipalities, and there are 2,261 foreign-owned firms in 2009[13]. Recently inward FDI has become dominant in the service sector and in the field of R&D rather than the manufacturing sector.

The Japanese government has also shifted their policy towards active promotion of inward FDI. They hoped to increase inward FDI which was at low level in contrast to outward FDI. However, inward FDI did not increase as they expected. In Japan, the number of foreign-owned firms with more than 50% of foreign capital was 3,329 in 2009 which accounted for 0.2% of total number of firms[14]. The total number of firms in Japan is twice that of Sweden. However, those firms with more than 50% of foreign ownership in Japan are 75% less than those of Sweden. In addition, the inward FDI performance index of Japan, which indicates the ranking of the relative inflow of FDI to its economic size, was 136 among 141 economies in 2009, despite the fact that the inward FDI potential index ranked it 26[15]. These figures suggest that Japan is less open to foreign capital and businesses. Moreover, most foreign-owned firms locate their

---

[11] Yumoto and Sato (2010).
[12] Tillväxtverket (2010). The definition of foreign-owned firm, called foreign controlled enterprise in the Tillväxtverket's report, is a firm held more than half of the voting power by one or more foreign investors.
[13] Business Region Göteborg (2010).
[14] Statistics Bureau, *2009 Economic census for Business Frame*.
[15] UNCTAD (2011). Regarding Sweden, the inward FDI performance index and potential index ranked 71 and 13 respectively.

headquarters either in Tokyo or other surrounding areas. Only 10% of foreign-owned firms are based in Kansai.

The facts pertaining to both outward and inward activities all show that Japanese firms are relatively less internationalized than Swedish firms. The reason for this difference has not been fully investigated. In discussion with some Kansai firms and local governments, many feel no necessity for internationalizing their activities. A number of Kansai firms are satisfied with their domestic businesses, since there are still sufficient opportunities without the risk of foreign markets. This inability of Japanese firms to look abroad may become a serious problem as the market contracts due to the rapid aging of society. How do the attitudes of local firms affect the regional development policies? One possibility is that local firms don't utilize policies that already exist in Kansai. This means that resources are not being used or perhaps promoted effectively. Another problem is that a lack of use leads to a contraction of the budgets and personnel allocated to regional development policy.

Furthermore, the stagnation of inward FDI in Japan is a result of a lack of understanding about the current trends of FDI. A large part of recent FDI inflow activity to developed countries is conducted by means of mergers and acquisitions. Conversely, most local governments in Japan expect greenfield FDI, which means new establishment firms creating new employment[16]. Although there has been an increase in Cross-border M&As, the majority of Japanese firms are yet cautious to be 'acquired by foreign capital'. These are some of the reasons why local governments stick to conventional inward FDI policy.

4.2 The internationalization of the administrative organizations

Globalization in the private sector has increased the importance of internationalization in the public sector. Local governments now need to cooperate more closely with foreign counterparts in addition to existing international friendship arrangement. Regional development policies that include support for overseas activities of local firms need to extend their targets to foreign firms. In this sense, international issues are the responsibility of regional development[17]. These changes require an understanding of internationalization by the administrative organization and personnel capable to handle it. Kansai and Västra Götaland share this change of circumstance. Berg and Lindahl (2003) summarized the research and set up a model of

[16] Actually, greenfield FDI is not always welcomed by local firms due to the increase of competition with local firms.
[17] Lindahl and Berg (2004), p.442. They analyze the internationalization of Västra Götaland.

internationalization for administrative organization. They explain the process of internationalization through two components: internal factors including international strategy and resource allocation within organization, and external factors represented by the international participation.

On the other hand, there was a significant change of circumstances that relates only to Västra Götaland: the affiliation to the EU in 1995[18]. The affiliation to the EU added a new, transnational level of governance for Västra Götaland. It enables Västra Götaland to apply regional development policy using the EU structure fund. At the same time, it required the internationalization of the local government, since applications for the EU fund *per se* are for international operation[19]. Furthermore, internationalization is expressed explicitly as a task of Västra Götaland in its regional policy strategy statement. With respect to the model of internationalization, one internal factor is the written regional strategy. The application to the EU structure fund is regarded as one of the external factors.

In contrast to this, the internationalization of local governments in Kansai is at a low level, even though each prefecture has long been responsible for internationalization. In most cases the international exchange division engages mainly in traditional international cooperation through friendship agreements etc. The responsibility for regional development projects is often found in the division of commerce and industry where internationalized personnel is lacking, and it is sometimes shared between both divisions. At the regional level, the UKG does not mention internationalization in its vision statement published in 2011. They have no concrete plan for developing international adaptability of the UKG itself. They do support measures for the internationalization of firms and promote inbound tourism. These facts show that internationalization in Kansai does not appear in internal or external factors. One reason for this slow internationalization in Kansai is that there is no corresponding framework such as EU is for Västra Götaland. Japan does participate in regional economic frameworks such as Asia-Pacific Economic Cooperation (APEC). However, there is a clear difference between APEC and the EU. APEC targets only on the trade liberalization and other economic aspects and doesn’t intervene in local economies. They are too weak to leverage local governments into internationalizing

[18] We note that municipalities *kommun*, not *landstings*, were the main actors of international operation before the start of Västra Götaland. One of the typical international activities for municipalities is friendship city arrangement. In addition, some departments are involved in international projects for specific area.

[19] Berg and Lindahl (2003) point out that a lot of municipalities are driven by the EU membership to formulate international strategy.

their operations.

5. Concluding Remarks

This paper considered some similarities and differences between Kansai and Västra Götaland. The results of the analysis are summarized as follows. Firstly, the two regions have a similar industrial structure and similar experience of economic stagnation over a long period of time. Secondly, the two regions share an expectation for regional coordination to stimulate their regional economy, and to improve the efficiency of the local government. Västra Götaland succeeded integrating Göteborg and three landstings, while Kansai is just now trying to figure out an appropriate framework. The comparison of the two regions showed that there were some difficulties of integration unique to Kansai. First of all, Kansai must solve the geographical border problem in order to introduce the province system and to transfer the tax sources and tasks from the nation. Thirdly, the extent of internationalization between the two regions is different concerning both aspects of public and private sectors.

With regard to regional coordination and internationalization, the two regions move in the same direction, however, they are at different levels of achievement. One should recognize that differences of system and circumstances unduly affect achievements. For example, the system of local governance in Sweden characterized as 'sandglass' made it less an obstacle for the coordination between landsting relative to Japanese prefectures. At the same time, simple adaptation of the same system as Västra Götaland – the province system – would not necessarily result in good governance in Kansai where prefectures already have a lot of tasks[20]. These differences in achievement are reflected in the realization of regional development policies. Therefore, Kansai has to find an appropriate, efficient, feasible framework.

Although faced with different problems, the regional economies of Kansai and Västra Götaland are facing the same challenges. They have to prepare supporting measures against the problems, for example, aging managers of SMEs, the difficulty of finding successors, concentration of the young generation in the city and the decline in suburbs. Some measures of Västra Götaland such as the industrial cluster strategy, support for entrepreneurs and SMEs are similar to what prefectures in Kansai have been working on. Further research on specific measures which would be useful to adapt for

[20] Actually, other regions in Sweden including the Kalmar region choose regional coordination with an indirectly-elected assembly much similar to the UKG in Kansai.

regional development should be considered.

[Bibliography]

Berg, Linda and Rutger Lindahl (2003) *Kommunal Internationalisering. Internationaliserinsprocesser i Västra Götalands Kommuner*, Utvärderings-programmet: Västra Götalandsregionen. Vol. 20. Göteborg: Göteborgs universitet & CERGU.

Business Region Göteborg (2010) *Foreign Owned Companies 2010.*

Ernstson, Ulf, Urban Fransson and Sten Lorentzon (2008), "Ortstruktur, Arbetsmarknader och Järnvägar – regionförstoring på olika villkor belysta med exempel frpn Västra Götaland med utblickar mot Skåne och Stockholms län", *Occasional Papers 2008:3*, Kulturgeografiska institutionen, Handelshögskolan vid Göteborgs univesitet.

Jensen, Christian. (2004) "Politiken kring regionidén", In: Nilsson, L. (ed.) *Svensk Samhällsorganisation i Förändring: Västsverige vid Millennieskiftet*, SOM-Instituitet.

Kansai Institute for Social and Economic Research (2010), *White Paper on the Kansai Economy*.

Lindahl, Rutger and Linda Berg (2004) "Bortom regionens gräns – internationalisering i Västra Götaland", In: Nilsson, L. (ed.) *Svensk Samhällsorganisation i Förändring: Västsverige vid Millennieskiftet*, SOM-Instituitet.

OECD (2006), *OECD Territorial Reviews: Competitive Cities in the Global Economy*, Paris: OECD Publishing.

OECD (2010) *OECD Territorial Reviews SWEDEN*, OECD Publishing.

Osaka Prefectural Institute for Advanced Industry Development (2008) *Shoukibo-Jigyousyo no Zougen to Chu-Daikibo Koujou (The Rise and Fall of Small-sized Establishments and Medium- and Large-scale Factories)*, Osaka prefecture (Only in Japanese).

Osaka Prefecture (2006) *White Paper on the Osaka Economy and Labor 2006 – Osaka Economy: Growing with Vibrant Asia.*

Pierre, Jon and Sara Schütt (2004) "Regionalisering och ekonomisk utveckling: Västra Götalandsregionens utvecklingspolitik" In: Nilsson, L. (ed.) *Svensk samhällsorganisation i förändgin: Västsverige vid millennieskiftet*, SOM-Instituitet.

Schön, Lennart (2007) *En modern svensk ekonomisk historia: Tillväxt och omvandling under två sekel*, SNS Förlag.

Small and Medium Enterprise Agency (2012) *The 2012 White Paper on Small and Medium Enterprises in Japan.*

Tillväxtverket (2010) *Utländska Företad 2009*.

Tillväxtverket (2012) *Internationalisering i svenska små och medelstora företag: Företagens villkor och verklighet 2011*.

UNCTAD (2011) *World Investment Report 2011*.

Yumoto, Kenji and Yoshihiro Sato (2010) *Sweden Paradox*, Tokyo: Nihon Keizai Shinbunsha (in Japanese).